

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-012  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

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AUDIT REPORT NUMBER

#08-012

15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements .....	3
Notes to the Financial Statements .....	6
Report Distribution.....	11



CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Jim Camp, President  
Board of Directors  
15th DAA, Kern County Fair  
1142 South P Street  
Bakersfield, CA 93307-3950

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 15th District Agricultural Association (DAA), Kern County Fair, Bakersfield, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 15th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

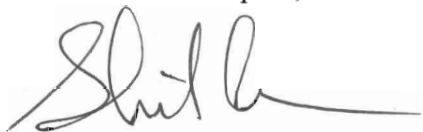
In 2007 and 2006, we were unable to apply general auditing procedures without extensive effort to satisfy ourselves about the disclosed amount for Account #113, Cash in Bank – Operating (stated as <\$6,124> in 2007 and as \$1,017,532 in 2006) as reflected in the accompanying Statements of Financial Conditions. As of December 31, 2007 and 2006, detailed, accurate records to substantiate amounts represented as outstanding deposits and outstanding checks did not exist. The Fair could not provide us the supporting documentation to reconcile the bank balance with the balance in its general ledger. In addition, in 2007, we were unable to apply general auditing procedures without extensive effort to satisfy ourselves about the disclosed amount for Account #228, Deferred Income (stated as \$70,372) as reflected on the accompanying Statement of Financial Condition as of December 31, 2007. As of December 31, 2007, detailed and accurate records to substantiate amounts represented as deferred income did not exist. The Fair could not provide us the supporting documentation to reconcile the account with the balance in the general ledger.



Because of the matters discussed in the third paragraph, in our opinion, except for the amount reported in Account #113, Cash in Bank – Operating, and the amount reported in Account #228, Deferred Income, the 2007 and 2006 financial statements referred to above present fairly, in all material respects, the financial position of the 15th DAA, Kern County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 15th DAA, Kern County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-012, on the 15th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 15th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



For Ron Shackelford, CPA  
Chief, Audit Office

July 23, 2008

**15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION  
December 31, 2007 and 2006**

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Petty Cash & Change Funds	112	\$ 4,148	\$ 5,148
Cash - Operating	113	(6,124)	1,017,532
Cash - Premium	114	721	138
Cash - Payroll	115	3,299	16,436
Cash - Time Certificate of Dep.	116	1,313,818	409,425
Accounts Receivable, Net	131	71,768	68,066
Deferred Charges	143	4,362	4,112
Construction in Progress	190	-	61,376
Equipment, Net	193	23,940	31,040
Leasehold Improvements, Net	194	5,225,681	2,767,780
<b>TOTAL ASSETS</b>		<b><u>6,641,613</u></b>	<b><u>4,381,053</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities</b>			
Accounts Payable	212	23,313	10,755
Current Portion of Long Term Debt	212.5	40,999	-
Payroll Liabilities	221-227	3,943	2,993
Deferred Income	228	70,372	43,458
Compensated Absences	245	354,529	337,138
Long Term Debt	250	1,332,719	-
<b>Total Liabilities</b>		<b><u>1,825,875</u></b>	<b><u>394,345</u></b>
<b>Net Resources</b>			
Net Resources - Operations	291	939,835	1,126,513
Net Resources - Capital Assets	291.1	3,875,903	2,860,195
<b>Total Net Resources Available</b>		<b><u>4,815,738</u></b>	<b><u>3,986,708</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 6,641,613</u></b>	<b><u>\$ 4,381,053</u></b>

**15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
Years Ended December 31, 2007 and 2006**

<b>REVENUE</b>	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
State Apportionments	311	\$ 40,000	\$ 40,000
Project Reimbursement	312-319	153,671	73,257
Other Non-Operating	340	932,538	-
Admissions	410	1,381,644	1,426,269
Commercial Space	415	281,941	272,750
Carnival	421	1,011,360	974,904
Concessions	422	661,384	646,301
Exhibits	430	82,598	78,207
Horse Show	440	56,650	82,585
Satellite Wagering	450	394,403	431,907
Attractions	460	43,016	47,143
Miscellaneous Fair	470	550,791	512,140
Non-Fair Revenue	480	1,094,393	1,031,291
Prior Year Adjustments - Revenue	490	17,926	(251)
Other Operating Revenue	495	60,396	37,048
<b>Total Revenue</b>		<b>6,762,711</b>	<b>5,653,551</b>
<b>EXPENSES</b>			
Administration	500	1,715,412	1,544,463
Maintenance and Operations	520	1,375,058	1,399,630
Publicity	540	197,358	193,249
Attendance	560	373,518	307,769
Miscellaneous Fair	570	141,649	126,583
Premiums	580	124,670	100,204
Exhibits	630	240,412	219,503
Horse Show	640	58,059	92,287
Satellite Wagering	650	326,788	313,253
Attractions - Fairtime	660	931,407	904,728
Interim Events	580	11,212	649
Equipment	723	63,080	34,491
Prior Year Adjustments - Expenses	800	53,406	62,044
Cash Over/Under	850	6,125	(2,052)
Depreciation Expense	900	279,016	197,811
Other Operating Expense	940	36,511	59,648
<b>Total Expenses</b>		<b>5,933,681</b>	<b>5,554,260</b>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		829,030	99,291
Resources Available, January 1		3,986,708	3,887,417
<b>Resources Available, December 31</b>		<b>\$ 4,815,738</b>	<b>\$ 3,986,708</b>

**15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
Years Ended December 31, 2007 and 2006**

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 829,030	\$ 99,291
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(3,702)	34,973
(Increase) Decrease in Other Prepaid Expenses	(250)	(3,687)
Increase (Decrease) in Accounts Payable	12,208	(19,285)
Increase (Decrease) in Current Portion LT Debt	40,999	-
Increase (Decrease) in Payroll Liabilities	1,300	(63,512)
Increase (Decrease) in Deferred Income	26,914	34,227
Increase (Decrease) in Compensated Absence Liability	17,391	3,640
Total Adjustments	<u>94,860</u>	<u>(13,644)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>923,890</b></u>	<u><b>85,647</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Construction in Progress	61,376	(55,774)
(Increase) Decrease in Equipment	7,100	(1,433)
(Increase) Decrease in Leasehold Improvements	<u>(2,457,901)</u>	<u>(73,202)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(2,389,425)</b></u>	<u><b>(130,409)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liability	<u>1,332,719</u>	<u>-</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>1,332,719</b></u>	<u><b>-</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(132,816)</b>	<b>(44,762)</b>
Cash at Beginning of Year	1,448,679	1,493,441
<b>CASH - END OF YEAR</b>	<u><u><b>\$ 1,315,862</b></u></u>	<u><u><b>\$ 1,448,679</b></u></u>



**15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 15th District Agricultural Association (DAA) was formed in 1925, for the purpose of sponsoring, managing, and conducting the Kern County Fair each year in Bakersfield, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

**NOTE 2      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 4,148	\$ 5,148
Cash in Bank - Operating	(6,124)	1,017,531
Cash in Bank - Premium	721	138
Cash in Bank - Payroll	3,299	16,437
Cash in Bank – Time Deposits	<u>1,313,818</u>	<u>409,425</u>
Total Cash and Cash Equivalents	<u>\$ 1,315,862</u>	<u>\$ 1,448,679</u>

**NOTE 3      ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 81,398	\$ 73,821
Allowance for Doubtful Accounts	<u>(9,630)</u>	<u>(5,755)</u>
Accounts Receivable - Net	<u>\$ 71,768</u>	<u>\$ 68,066</u>

**NOTE 4      PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Equipment	\$310,322	\$315,368
Less: Accumulated Depreciation	<u>(286,382)</u>	<u>(284,328)</u>
Equipment - Net	<u>\$ 23,940</u>	<u>\$ 31,040</u>

Leasehold Improvements	\$ 9,437,870	\$ 6,708,840
Less: Accumulated Depreciation	<u>(4,212,189)</u>	<u>(3,941,060)</u>
Leasehold Improvements - Net	<u>\$ 5,225,681</u>	<u>\$ 2,767,780</u>

**NOTE 5      LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project on the fairgrounds. The terms of the agreement are as follows:

**CCA Photovoltaic Loan:**

Loan Amount	\$ 1,373,718
First Payment Date	July 2008
Payment Amount	\$ 8,771
Duration of Loan	188 Months
Interest Rate	Zero, Principle Only
Total Outstanding at 12/31/07	\$ 1,373,718
Current Portion at 12/31/07	\$ 40,999
Long-Term Portion at 12/31/07	\$ 1,332,719

**NOTE 6      RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in

lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7      **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA**

**REPORT DISTRIBUTION**

<b><u>Number</u></b>	<b><u>Recipient</u></b>
1	President, 15th DAA Board of Directors
1	Chief Executive Officer, 15th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA

MANAGEMENT REPORT #08-012

YEAR ENDED DECEMBER 31, 2007

15TH DISTRICT AGRICULTURAL ASSOCIATION  
KERN COUNTY FAIR  
BAKERSFIELD, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2007

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AUDIT STAFF

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Audit Chief  
Assistant Audit Chief  
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Auditor

MANAGEMENT REPORT NUMBER  
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**TABLE OF CONTENTS**

	<u>PAGE</u>
MANAGEMENT LETTER.....	1
REPORTABLE CONDITIONS .....	3
Bank Account Reconciliations .....	3
Accounts Payable and Accrued Liabilities .....	4
Accounting for Fixed Assets .....	5
General Journal Entries .....	6
Personnel Records .....	7
Accounts Receivable .....	8
NON-REPORTABLE CONDITIONS .....	9
Cash Receipts .....	9
Approval for a Multi-Year Contract .....	9
Accounting for Satellite Wagering Revenue.....	10
DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE.....	11
CDFA EVALUATION OF RESPONSE.....	17
DISPOSITION OF AUDIT RESULTS.....	18
REPORT DISTRIBUTION .....	19



CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Jim Camp, President  
Board of Directors  
15th DAA, Kern County Fair  
1142 South P Street  
Bakersfield, CA 93307-3950

In planning and performing our audit of the financial statements of the 15th District Agricultural Association (DAA), Kern County Fair, Bakersfield, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Kern County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 15th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 15th DAA's assets. The system of internal control



should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 15th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 15th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 15th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 15th DAA and compliance with state laws and regulations, we identified six areas with reportable conditions that are considered weaknesses in the Fair's operations: bank account reconciliations, accounts payable and accrued liabilities, accounting for fixed assets, general journal entries, personnel records, and accounts receivable. We have provided 20 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 15th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### BANK ACCOUNT RECONCILIATIONS

Due to the lack of supporting documentation, our office was unable to verify the amount listed in the general ledger at year-end for Account #113, Cash in Bank – Operating. The Fair's bank reconciliation lists \$747,974 in outstanding checks and \$785,380 for deposits in transit; however, the Fair could not provide any verifiable supporting documentation to demonstrate that these amounts are valid. In addition, our office noted the Fair's bank balance on their reconciliation is different than the actual balance on the bank statement. It should be noted that our prior year audit also identified the Fair had not performed an accurate reconciliation of its operating account. The operating bank account is crucial to Fair operations since all revenues generated and expenses incurred are processed through this account. An accurate bank reconciliation is essential for good internal controls because it provides a comparison of bank balances to accounting records, shows which checks are still outstanding, and ensures deposits and cleared checks agree with the general ledger. A bank account that cannot be reconciled to the general ledger is a red flag that could signal much larger problems with the amounts being posted in the general ledger, deposits, or outstanding checks.

In addition, our office noted the other bank reconciliations (payroll account and premium account) do not match the general ledger either. Furthermore, the bank reconciliations for all bank accounts were not signed and dated by the preparer, and, as noted above, were not always prepared using accurate information. In addition, no evidence indicates when the reconciliations were reviewed and approved by supervisor to ensure their timeliness and accuracy.

Moreover, the Fair has outstanding checks of \$25,201 in its Premium and Payroll bank accounts that are dated from 2000-2006. According to the State Administrative Manual (SAM) Section 8042, uncashed checks for over one year can be reverted back to the appropriate cash accounts. Listing and tracking outstanding checks for more than one year complicates the reconciliation process and increases the chances for errors.

#### *Recommendations*

- 1. The Fair must make it a priority to reconcile the operating bank account as soon as reasonably possible. The Fair should start with the most recent month, determine the cause of the variance and make the necessary correcting journal entries to sufficiently reconcile the bank account.*
- 2. The Fair should make it a priority to improve the condition of its financial records related to its bank accounts. The Accounting Procedures Manual and good business practices should be followed when recording all financial transactions in the general ledger.*

3. *In the future, the Fair should ensure all bank reconciliations are completed for all bank accounts on a monthly basis. To prevent any ongoing errors, any material differences should be immediately researched for their cause and corrected. In addition, the reconciliations should contain signatures from someone other than the preparer to ensure accuracy, completeness, and timeliness of the reconciliations.*
4. *The Fair should maintain an accurate and verifiable account of its outstanding check amounts and amounts reported as deposits in transit for its operating bank account. Adequate documentation is crucial to the reconciliation and substantiation of cash amounts. When no clear trail exists, the Fair can have no certainty as to whether the amounts of available cash are properly safeguarded.*
5. *The Fair should research which checks have been outstanding for over a year and perform the reversion per SAM Section 8042 guidelines.*

### **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Our office examined the Fair's liability accounts as recorded in the year-end accounting records, the following accounting errors or omissions were noted:

- a. The Fair did not maintain a control log nor perform a reconciliation for Account #228, Deferred Income. Of the \$70,372 general ledger balance at year-end, only \$49,905 could be traced to source documents, leaving a variance of \$20,467 that could not be verified. Generally Accepted Accounting Principles (GAAP), sound accounting and business practices, as well as the Accounting Procedures Manual (APM) dictate the proper matching of revenues and expenditures in the correct accounting period. Since deferred income represents a liability on the balance sheet, errors in posting of activity to this account may materially affect the results of operations.
- b. An examination of the Fair's general ledger noted large debit balances in several liability accounts totaling \$15,344. For example, Account #229, Payroll Liability, showed a debit balance of \$12,829. In usual circumstances, all liabilities as stated in the Fair's general ledger should contain credit balances. A debit balances usually indicates some type of accounting error has been recorded or that the Fair overpaid a vendor.
- c. The Fair made an attempt to, but did not fully accrue all liabilities at year-end. Our office noted unrecorded liabilities of \$8,080 at year-end relating to 2007 expenses that were subsequently paid in 2008. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual STOP. This is a prior audit finding (2006).
- d. The Fair listed \$5,177 as "various vendors" on Schedule 2, Schedule of Accounts Payable, in the statement of operations (STOP). Previous Schedule 2's included amounts as "required to balance" of \$3,478 in 2006 and \$2,084 in 2005.

- e. Account #245, Compensated Absences Liability, is understated by \$4,687 at year-end. Our office identified this variance as we totaled outstanding leave balance, using year-end salary rates, to the amount recorded in the general ledger. According to the APM, this balance should be updated annually prior to preparing the year-end financial records.
- f. The long-term debt associated with the photovoltaic project was not recorded in the general ledger at the end of the year. The photovoltaic project is an approximate \$2.5 million dollar solar energy improvement project that was constructed in phases on the fairgrounds. A final accounting for the project that includes recognizing the outstanding debt is necessary to ensure the Fair's financial statements are fairly stated.

### *Recommendations*

- 6. *The Fair should make it a priority to research and determine the correct balance for Account #228, Deferred Income. The necessary correcting journal entries should be made to ensure the account is fairly stated.*
- 7. *The Fair should make it a priority to determine why certain liability accounts contain debit balances. The Fair should make the necessary correcting journal entries to ensure these accounts are fairly stated. In the future, all liability accounts with debit balances should be reviewed for appropriateness prior to closing the accounting period at year-end.*
- 8. *The Fair should continue to accrue liabilities for all known payables, including estimates of utilities, even though billings have not yet been received.*
- 9. *The Fair should reconcile the Accounts Payable to the general ledger, and ensure all amounts reflect amounts the Fair owes.*
- 10. *The Fair should adjust the compensated leave liability to reflect the liability at the current rate of pay prior to closing the accounting period and preparing the year-ending financial statements.*
- 11. *The Fair should make the appropriate adjustments to reflect the correct amount of the photovoltaic project within its accounting records. Upon making each monthly payment, the Fair should ensure it reduces the long-term debt associated with the photovoltaic project only by the principal portion. The remaining portion of the monthly payment should be treated as a period expense.*

### **ACCOUNTING FOR FIXED ASSETS**

The Fair has not taken corrective action for fixed asset transactions prior to closing its accounting records and preparing the annual statement of operations (STOP). A variance of \$2,300,075 exists between the general ledger and the property ledger. The following are findings our office noted during the audit:

- a. The Fair has not reconciled amounts for fixed assets as recorded in the general ledger to the property ledger. This is a prior year audit finding. Our audit identified

## Management Report #08-012

Bakersfield, California

differences between the current and the 2004 property ledger. Several invoices were double posted to Construction in Progress, and subsequently capitalized. Sales barn doors and Harvest Hall HVAC are listed on the property ledger that do not meet the capitalization criteria, and should be removed. The Department of Finance requires State agencies, including district agricultural associations, to capitalize only items with a unit cost greater than \$5,000 and a useful life of more than one year. This is a prior audit finding.

- b. The Fair continues to post transactions to Acct #192, Buildings and Improvements, and Acct #192.01, Accumulated Depreciation-Buildings & Improvements. These transactions should be posted to Acct #194.01, Accumulated Depreciation-Leasehold Improvements. This is a prior audit finding (2004, 2005, 2006).
- c. The Fair posted an entry directly to Acct #291, Net Resources, to adjust Leasehold Improvements for a 2006 STOP correction.

*Recommendations*

- 12. The Fair should make the necessary correcting journal entries to ensure the amounts reported for fixed assets within its accounting records are fairly stated. In the future, the Fair should reconcile the general ledger to the property ledger to ensure all fixed asset transactions are properly accounted for prior to closing the accounting records and preparing the year-ending financial reports. As specified in F&E's Fixed Asset Manual, the property ledger serves as a subsidiary ledger that contains detailed information regarding all fixed asset amounts capitalized in the general ledger.*
- 13. The Fair should place a higher emphasis on ensuring only fixed assets that comply with the Department of Finance's asset capitalization criteria are recorded in the general ledger. All assets that do not meet the asset capitalization criteria should be removed from the fixed asset records.*
- 14. The Fair should ensure journal entries are not recorded directly to any net resources account. This practice is referred to as netting and understates total revenues and expenses that may lead to material misstatements in the Fair's financial reporting*

**GENERAL JOURNAL ENTRIES**

Our office noted that upon examining the general journal entry log, the Fair did not include all supporting documentation relating to the entries recorded into the general ledger. As a result, there were many journal entries that our office could not fully understand. The Division of Fairs & Expositions (F&E) Accounting Procedures Manual and good business practice require journal entries to include the entry number, justification for the entry, description of the transaction, and references to other documents that explain the entry, and the entries must be reviewed and initialed monthly by someone other than the preparer.

*Recommendation*

- 15. The Fair should comply with the Accounting Procedures Manual by improving its supporting documentation over the journal entries recorded to the general ledger. This*

*process will benefit the Fair, as it will lead to a more efficient review when research is performed to resolve accounting variances and errors.*

## **PERSONNEL RECORDS**

The Fair allowed eleven temporary employees to work in excess of the 119-day limitation within a calendar year. Although the Fair monitored the number of days worked by each temporary employee, these employees worked ranging from 123 days to 206 days in 2007. This could result in the employees not being exempt from civil service. According to the Constitution of the State of California, Article VII, Section 4(l), officers and employees of district agricultural associations employed less than six months in a calendar year are exempt from civil service. Temporary employees are not covered by civil service laws; therefore, temporary employees working six months or more in a calendar year may not be exempt from civil service law. Six months equates to 120 days considering a five-day work week regardless of the number of hours worked in a day. Furthermore, the APM states that temporary employees may not work more than 119 days in a calendar year. This is a prior audit finding.

In addition, the Fair allowed two employees to exceed the maximum leave accrual of 640 hours, while allowing nine employees to exceed the compensating time off (CTO) limitation of 240 hours. The individual bargaining units, as managed by the Department of Personnel Administration, establish these limitations. As a State agency, the 15th DAA must comply with these limitations.

Furthermore, our Office noted a possible error on behalf of the Fair when auditing the quarterly payroll tax returns. We identified a variance of \$123,874, between the Form 941's, Employer's Quarterly Federal Tax Return, and the W-3, Transmittal of Wage and Tax Statements. The Fair erroneously reported total compensation instead of taxable gross wages.

### *Recommendations*

- 16. The Fair should improve its efforts to comply with the APM and the State Constitution, by managing and controlling the number of days temporary employees are allowed to work. No temporary employee should be allowed to work in excess of 119 days.*
- 17. The Fair should ensure that permanent employees do not carryover accrued leave hours in excess of 640 hours. The Fair should encourage employees with excess balances to take time off, thereby reducing their accumulated leave balances. In addition, employees should be paid in cash for any CTO hours worked in excess of the 240-hour limitation.*
- 18. The Fair should ensure its quarterly payroll tax returns are prepared accurately in order to avoid any unnecessary fines and penalties. The Fair should report the "Taxable Gross" as total compensation on the Form 941, which will correspond to the amount reported on the W-3.*



**ACCOUNTS RECEIVABLE**

A review of the Fair's accounts receivable balances as reported in the year-end financial reports identified the following weaknesses:

- a. It appears Account #131, Accounts Receivable, is overstated at year-end by approximately \$7,639. The Fair could not provide supporting documentation to verify the amount reported in the 2007 statement of operations. Documentation for accounts receivable should include a complete list noting (1) the debtor's names; (2) the date and number of the agreement; (3) the amount of the indebtedness; and (4) the date and number of the subsequent cash receipt, if any.
- b. The Fair has not established an allowance for doubtful accounts for amounts that have been identified as uncollectible. Our office identified \$3,876 as uncollectible at year-end. The Fair should review the outstanding accounts receivable amounts at the end of the year for collectability. An allowance for doubtful accounts should be established for any receivables that appear unlikely to be collectible. This process presents the overall net assets of the Fair more accurately in the year-end financial reports.

*Recommendations*

19. *The Fair should make the necessary correcting journal entry to ensure Account #131, Accounts Receivable, is fairly stated in the general ledger. In addition, the Fair should improve internal controls by maintaining complete documentation to support all amounts recorded as outstanding accounts receivable in the general ledger and the year-end STOP.*
20. *The Fair should ensure it continues to monitor all outstanding account balances on a timely basis to evaluate their collectability. The Fair should exhaust all means of collection and then record any receivable that is considered uncollectible in Account #131, Allowance for Doubtful Accounts.*

## NON-REPORTABLE CONDITIONS

### CASH RECEIPTS

Our office reviewed the Fair's cash receipting procedures and noted the following internal control weaknesses:

- a. The Fair does not always deposit cash receipts on a timely basis. The APM states that the Fair is to make bank deposits the next business day whenever cash exceeds \$500, or cash and checks in the aggregate exceed \$5,000. Furthermore, no collection may remain undeposited for more than fifteen working days. The Fair allowed livestock cash deposits exceeding \$5,000 to remain undeposited for up to 9 days. This is a prior audit finding.
- b. The Fair did not properly cut-off the cash receipting activity at the end of the accounting period. Our office noted that December cash receipts were erroneously included with cash and checks received through January 7, 2008. Generally accepted accounting principles (GAAP) require the recognition of revenue within the period earned. If revenue has been earned, but not yet received, a receivable should be established for the amount due. This should be done prior to closing the accounting records and preparing the annual STOP.

### *Recommendations*

*The Fair should ensure it deposits cash receipts within the timeframes specified in the APM. The timely deposit of cash receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected*

*The Fair must ensure that cash receipts journals are properly cut-off and closed at the end of the year. This process will improve internal controls by helping the Fair prepare the bank reconciliation, as well as other financial reports that rely on the cash receipts register.*

### APPROVAL FOR A MULTI-YEAR CONTRACT

The Fair did not obtain approval from F&E for a multi-year sponsorship agreement. The Food and Agricultural Code, section 4051.1(b), and F&E's Contract Manual require approval for sponsorship contracts that 1) exceed \$100,000 in value, 2) have a term of over two years, or 3) contemplate the building of a permanent structure on fair property.

*Recommendation*

*The Fair should comply with Food and Agriculture Code section 4051.1 by ensuring F&E's approval is received for all multi-year sponsorship agreements and agreements exceeding \$100,000.*

**ACCOUNTING FOR SATELITTE WAGERING REVENUE**

Our office noted the Fair did not accrue approximately \$4,667 in track commissions earned from its satellite wagering facility in December 2007. GAAP requires the recognition of revenue within the period earned. If revenue has been earned, but not yet received, a receivable should be established for the amount due. This should be done prior to closing the accounting records and preparing the annual STOP.

*Recommendation*

*The Fair should accrue revenue earned but not yet received at year-end by establishing a receivable for the amount due.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



December 4, 2008

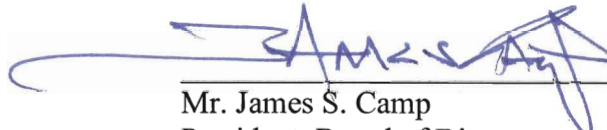
Mr. Ron Shackelford, CPA  
CDFA Audit Office  
1220 N Street, Room 344  
Sacramento, CA 95814

Re: 2007 Audit Response Transmittal

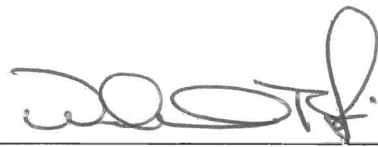
Dear Ron:

Enclosed please find the response we are making to Management Report #08-012 for the year ended December 31, 2007. If you have any questions or comments they are best directed to Bill Blair at the letterhead address or by phone at (661) 833-4905.

Sincerely,



Mr. James S. Camp  
President, Board of Directors



William D. Blair  
Chief Executive Officer

cc: Division of Fairs and Expositions

**15<sup>th</sup> District Agricultural Association  
Kern County Fair  
2007 Audit  
Management Report #08-012  
Management Response to the Reportable Conditions**

**¶ Bank Account Reconciliations**

**Recommendations**

- 1) The Fair must make it a priority to reconcile the Operating bank account as soon as reasonably possible.

**Response** - The Accounting staff will begin the Operating Account reconciliation immediately after the preparation of the monthly financial statements and move to the payroll account reconciliation, followed reconciling the LAIF account and the two premium accounts. The reconciliations will be completed by the end of week three each month and any adjusting journal entries can be prepared for the current month end closing of the books. All bank reconciliations will be reviewed, approved and the completion of the report will be given to the CEO.

- 2) The Accounting Procedures Manual and good business practices should be followed when recording financial transactions related to its bank accounts.

**Response** - The accounting staff has been trained in the appropriate sections of the Accounting Procedures Manual and the documentation for Journal Entries will be standardized.

- 3) The Fair should ensure all bank reconciliations for all accounts are completed on a monthly basis.

**Response** - All bank reconciliations will be completed monthly, in a timely manner.

- 4) The Fair should maintain an accurate and verifiable account of its outstanding check amounts and amounts reported as deposits in transit for its operating bank account.

**Response** – The fair utilizes the nQative (formerly CompuShare) Accounts Payable system provided by CFSA. The system's reports are printed each time transactions are entered. In addition, the Brinks Armored Car Service signs a log book for all deposits transported to Bank of America. The Fair's B of A accounts are all on-line and are accessed daily by the Deputy Manager to determine the account balances.

- 5) The Fair should research which checks have been outstanding for over a year and perform the reversion per SAM Section 8042 guidelines

**Response** - During the year-end reconciliations, a review will be made to determine any checks outstanding for over 12 months for reversion per SAM Section 8042. This review will become standard practice each month.

## **Accounts Payable and Accrued Liabilities.**

### **Recommendations**

- 6) The Fair should research and determine the correct balance in Account # 228 Deferred Income.

**Response** - This will be completed in December, 2008 and become a standard practice.

- 7) The Fair should review liability accounts with debit balances.

**Response** – All liability accounts will be verified and if any contain negative balances, they will be rectified.

- 8) The Fair should continue to accrue liabilities for all known payables including estimates for utilities.

**Response** – The fair will make sure all the necessary accruals are made at the end of each year.

- 9) The Fair should reconcile the Accounts Payable subsystem to the General Ledger.

**Response** - The Fair will reconcile all subsystems to the General Ledger.

- 10) The Fair should adjust the Compensated Leave Liability to the current rate of Pay and not leave amounts previously accrued at old pay rates.

**Response** - The payroll clerk will recompute the year end liability with the current rate of pay for each employee.

- 11) The Fair should make the appropriate adjustments to reflect the correct amount of the photovoltaic project and post the proper amounts of each payment to reduce the long term debt and other period expenses.

**Response** – The fair will have the appropriate values for the photovoltaic system booked for a proper year end closeout of the books.

The monthly payments for the photovoltaic project have been broken down and posted to the appropriate account i.e. reduction of long term debt and the period payments including interest and insurance for the project in the 2008 General Ledger.

#### **⌘ Accounting for Fixed Assets.**

- 12) The Fair should make all necessary corrections following a reconciliation of the Construction-in-Progress records to the Property Ledger and on to the General Ledger.

**Response** - The Fair staff has identified several errors in the Property Ledger and will make all necessary corrections before the year end close so that an adjusting entry can be made to the General Ledger fixed asset accounts.

- 13) The Fair should follow the Dept of Finance asset capitalization guidelines.

**Response** - The Property Ledger reconciliation will include making sure all assets meet the guidelines.

- 14) The Fair should not record journal entries directly to any net resources account.

**Response** – The appropriate posting to accounts is now in practice. Net resource accounts are no longer being netted.

#### **⌘ General Journal Entries**

- 15) The Fair should follow the Accounting Procedures Manual to better document and support Journal Entries.

**Response** - All Journal Entries are now being reviewed on a monthly basis and are verified they are properly documented.

#### **⌘ Personnel Records**

- 16) The Fair should improve control over the number of days temporary employees work in a year.

**Response** – The Fair has notified all supervisors that temporary employees are not allowed to exceed 119 days. A monthly report is being sent to each supervisor with the days the employee has worked and how many days are left to the employee can work in the year



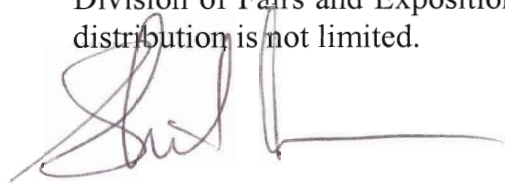
**C DFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 15th DAA, Kern County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between July 7, 2008 and July 23, 2008. My staff met with management on August 19, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For Ron Shackelford, CPA  
Chief, Audit Office

July 23, 2008

## REPORT DISTRIBUTION

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1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office